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ABSTRACT

Perspectives about colleges and business schools are offered by a businessman who chose academia as a second career. It is suggested that business education is a mature, but still very good present and future market. However, currently there is a more competitive and discriminating market for Masters of Business Administration than in the recent past. It is proposed that colleges that are considering the implementation of graduate business education should make their program unique, aiming at a differential segment of the market. Success depends on offering something special, serving a special group, or both. Besides investing wisely in their futures, the top-ranked business schools will produce relevant and useful research, working in cooperation with business. The top business schools will expand their volume of research, focusing on issues of prime importance to business and economic development. In addition, since business schools are fully part of the university, they should contribute skills and expertise and resources to help the university survive and prosper. The best business schools are associated with outstanding liberal arts institutions. (SW)

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ON BUSINESS, THE UNIVERSITY AND THE SCHOOL OF MANAGEMENT: A REALISTIC LOOK AT THEIR RELATIONSHIP*

JULIUS STEINBERG MEMORIAL LECTURE

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I am a businessman who has chosen a second career in academia. And before I go any farther, I'd like to stress one point; I am having the time of my life, and I can only hope that everyone has an opportunity to work in such a stimulating, invigorating and meaningful environment.

I don't claim to understand this new world. But I am studying it, and I intend to learn as much as I can about this varied and wonderful place -- the university. Still, a few things have surprised me since I arrived on campus less than a year ago. I'd like to share some of my initial thoughts and impressions about them today, before I can no longer view this new world from an outsider's perspective. Perhaps in a year or two, I'll be able to look back and see if my original impressions still seem valid.

I won't spend time on some of the more obvious surprises--such as my encounter with the young woman who stopped me in a hallway at school to ask me to dance. I, at least, heard no music, and no one else seemed to be dancing. Or the student who walked with me on campus for a block and a half, suggesting for some strange reason, that I represented the military/industrial complex. Or the young man who stormed into my office, carrying a satirical letter about the new dean. The student newspaper would print it, he said, only with my permision because the editors felt it was extremely libelous. Since I seemed to be a regular kind of guy, however, the young man was sure I wouldn't mind.

As surprising as these encounters are, to a person from the business world, they're only very minor oddities and are of no great concern. What surprises me more, are some larger issues that have to do with education, with the universities and business schools themselves, and with the relations between

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business schools, the universities and the business world. My remarks, happily, are not directed at the great university and school of management I am now privileged to be connected with, although we are not immune from the need to challenge. My observations are general, not related to any specific institution and I find that I'm not alone in my concern. Some of my fellow deans have raised many of the same issues during conversations with me.

As a newcomer, I am naturally interested in the differences between the world I recently left and the world I now work in. Yes, I've discovered, academia is not the business world. And things are done differently here and some differences are undoubtedly warranted. Yet, most of the educational administrators I know are talking about how to run their institutions in more business-like ways. They recognize that doing so may be the only way to survive in times of scarce resources, declining enrollments, continuing inflation, and growing demands on a limited body of contributors. In addition, many educators I know are reading In Search Of Excellence, the international best-seller that does--as we have just heard--have some connection with business.

Judging from their business practices however, some educators perhaps, are not reading Mr. Waterman's book carefully enough.

One of the points throughout In Search Of Excellence is that successful, excellent companies "are close to the customer." That is, "these companies learn from the people they serve. they provide unparalleled quality service, and reliability." For them, in an old-fashioned sense, the customer is always right.

I wonder how many universities--or schools of business-- can truthfully say that they're close to their customers, The students who pay steep tuition for an opportunity to attend class and earn degrees and the businesses who hire them. I wonder how many are listening to their customers carefully.

I hear stories, for example, about mistakes in tuition billings--some of which remain unsolved during a student's undergraduate career. I hear about lost records. At one distinguished university, for example, the EDP systems are apparently in such a poor state, that students often have no idea, even on graduation day, whether they have fulfilled their graduation requirements. And I wonder if any of you have been through a registration lately! This experience gives new meaning to the word kafkaesque. There are stories as well about poor teaching, about the low place of teaching in the institution's hierarchy of values, and about the students' general dissatisfaction with the product they're buying. Some of these complaints may seem trivial and some may not be warranted, but to me they represent an apparent indifference to the customer. And disregarding them in today's market is simply bad business. It's a policy that no institution can afford.

Let me turn to another area.

I'm surprised--deeply surprised--that often, academic institutions look on business schools as "cash cows".

In business, a cash cow is a division or product line that appears to have no real future. You don't put resources into cash cows. Instead, you drain as much cash from them as you can, diverting it for investment in the products and businesses that have the strongest potential for the future and eventually the cash cow is put to rest.

Perhaps I'm not the most objective observer, but from my standpoint, this kind of behavior makes little sense--if the university considers its business school a part of the institution's future. Indeed, if I were running the university as a business, I would treat the business school as product line with a very good future.

Yes, money is a very scarce commodity in education today. For institutions in need, business schools--or other successful professional schools--offer a short term alternative as sources of ready cash. The old story about the goose that laid the golden egg is still true, and many business school deans I've talked with worry that we're in danger of killing off the goose--or to revert to my earlier metaphor, milking the cash cow dry.

There's another side of this search for money that surprises me. A number of institutions are going into graduate business education for the first time, opening new business schools. This behavior, coupled with the cash-cow concern just mentioned, leads me to believe that academic entrepreneurs look on business education as an ever-expanding market, one that offers a number of advantages, including new sources of cash to keep the university's doors open and new students to combat declining enrollments. In philadelphia, alone, we have eleven institutions offering MBA programs. And five of these have been initiated during the last eight years.

If my analysis of gradute business education is accurate, we are in a mature market--not an expanding one. This year, U.S. graduate business schools will turn out more than 52,000 MBAs--in 1960 the total stood at only 4,640. But this number will not increase appreciably. Over the coming years, it may well decline.

Everywhere we hear the words like "Glut" and "Over Production". We hear that the MBA has been devaluated; that suddenly companies are unwilling to pay new MBAs the kind of salaries that they have recently demanded; that companies are cutting

back on the numbers of MBAs they're hiring; that MBAs are no longer considered crown princes or princesses. What we're seeing is a mature market, and while running a high-quality business school can still represent a good, profitable product line, for today and the future, it's not an expanding one.

So, speaking as a businessman, I have an observation for anyone now considering entering the business of graduate business education. I would suggest that they look closely at another mature market, the airline industry. While this industry is more mature than the business of graduate business education, it can still serve as a cautionary example. Before embarking, learn more about Braniff, Continental, National, Eastern or Air FLorida. You'll find out a lot about competition in a mature market.

Let me look at another area of surprise: conflict. In talking with other deans, I find that conflict often arises between universities and their business schools. Usually, the conflict centers on money--on budgets and the division of the income generated by the university's schools.

In business you would find minimal, if any, conflict between the corporation and self sustaining, profitable divisions that have good future potential. Conflict would be centered mainly on those divisions that have major problems.

I'm happy to say that I haven't experienced this conflict in my new role. But apparently it does exist in some institutions consuming extraordinary amounts of energy and time--time that could be better spent in search of excellence.

I'm constantly surprised by the number of academics writing articles that express concern about the relations between business schools and the business world. By becoming too "cozy" with business, these writers argue, the schools stand in danger of becoming tainted or of losing their academic freedom. They help create an environment that often cannot determine whether academia is in partnership with business, totally divorced from it, a watchdog over it or some schizophrenic combination of all three. Believe strongly in academic freedom, and I'll fight to preserve it. But I believe that we can preserve this freedom while still building a stronger and mutually beneficial relationship with business. Certainly, our friends the Japanese or the Germans--nations that have achieved some little success in today's competitive world--don't seem to spend time endlessly debating this issue.

I'm surprised, as well, by some critics who define the role of business very narrowly in relation to education. Business, they

claim, should act as a kind of rich uncle, generously donating funds, while expecting nothing but a word of thanks in return. In the eyes of such critics, the business school would seem to have no responsbility to help business solve its problems of today or to create opportunities for tomorrow.

Well, enough for my surprises. They may not have been surprises to you, and most of you have probably lived with these and other observations for some time.

Since I consider myself one of those positive, forward-thinking, action-oriented, can-do leaders that Mr. Waterman describes in his book, what are my suggestions for dealing with the issues I've listed? What I'm about to say doesn't belong in a scholarly journal--my ideas aren't built on a foundation of research. They represent some thoughts from someone who has been active in business. They represent the experience of being in a firm that has continuing relations with more than 10,000 businesses, including many academic institutions. And they result from the experience of seeing which of these clients survived, and which did not.

I started with the observation that the business of business education is a mature, but still very good present and future market. I arrived at my second observation--that we are operating in a much more competitive and discriminating market for MBAs than we have seen in the recent past--by talking, over the past six months, with approximately fifty companies that "use" the products of graduate business schools, MBAs. This market no longer tolerates the person who shows up on a company's doorstep and announces: "I'm an MBA. I was trained to be a CEO. Where do you want me to reside until you're ready to install me in that job?" Yes, the market is no longer ready to accept people merely because they have that degree. The market wants people with the tools and attitudes that enable them to go to work.

The market wants people who can make contributions to the company today as well as over the longer term. And the market is no longer willing to "beat up" people for six to nine months just to get them into a position to do something that is meaningful to the company today.

As Walter Light, the President and CEO of Northern Telecom, Limited, has said: "an MBA isn't a crown prince. He still has to demonstrate that he can manage the business as effectively as anyone else. Education is no burden to carry--absolutely none. It gives you what you need to grow." But, he continues, "the only way to really get a feel of how a business works is to become involved in the day-to-day process of running it."

From these observations, I draw the following conclusions. First, if you have just gone into the business of graduate school education, or are thinking about doing so, you'd better act with the greatest caution and thought. Second, if you do decide to go ahead, you should make your program unique, aiming at a differential segment of the Market. To succeed, you must be able to offer something special, offer it to a special group, or both. Freddie Laker went into a mature market with a special product--transporting people very economically and without frills across the Atlantic. Initially he succeeded. When he decided that he was going to compete across the board in a mature market and he proved the point I'm making here! Not Surprisingly, in competing against the international carriers on their turf, Laker went out of business. Delta, American and United have been in the airline business a long time. They're good, and they're determined to survive. If you want to compete against them and survive, you'd better have a good and different idea. People's express did, for example. but if you're going to take them on on their home field, you'll probably end up as a "short-timer".

Because graduate business education is a mature market, as well as a good future product line, smart institutions will invest in their business schools. I don't mean that they'll put in more money than the school can generate. Instead, they will invest enough of the school's earnings to assure both their survival and their ability to achieve excellence over the long term.

In my opinion, this investment is wise and necessary, both for those universities who intend to have top ranking schools of business and for those who only aspire to have good, credible schools. We won't be seeing 10 or 15 top business schools in the future. Instead, we'll probably see five, and some of the names appearing in that group may come as a great surprise. In that list, we'll find, among others some innovative, up-and-coming business schools that are now investing wisely for long-term growth. They will be turning out graduates who not only have been trained for leadership positions, but also have the tools and attitudes necessary to "hit the road running" and make a meaningful contribution to the company they join - today. In the meantime, some schools now considered in the top rank will slide into a broad second category of "good" business schools. Investment will be needed even for such a status. Schools receiving no investment run the danger to real failure in a market that is now both mature and discriminating.

Besides investing wisely in their futures, the top-ranked business schools will produce relevant and useful research, working in cooperation with business.

The central mission of a great school of management is no different from that of any institution of higher education, namely to create and disseminate knowledge. For that knowledge to be useful to society, however, it must have relevance, and for schools of business, that relevance can only be achieved through an interaction with business. Medical schools, after all, don't work in isolation; their knowledge has broad and sometimes immediate practical application.
The top business schools will expand their volume of research, focusing on issues of prime importance to business and economic development. We must be wary, however, of conducting research solely for its own sake. Research must be shared, and the business schools bear responsibility for sharing its store of knowledge with the world through, among other avenues, effective teaching.

So, I believe if business schools are to make the most meaningful contribution to society, they must do so in the spirit of cooperation with american business. Instead of producing articles about the danger of forming close relationships to business, academics should spend their time on research that shows how American business schools can work cooperatively with business, labor, and government to help the nation regain the prominence it once enjoyed in the international market place.

Some say that business schools are a fundamental part of the problem of the U.S. losing its unchallenged world economic leadership. If this is true, then I ask why is it our principal world economic competitors are sending their best and brightest to U.S. business schools to be trained.

No, I do not believe that American education is the problem. Instead, it's part of the solution, and I believe that those of us in education must recognize that responsibility publicly. Moreover, we must begin to act in ways that demonstrate our ability to bring about change.

Our educational system possesses the resources, determination and skills necessary for making a contribution to the continued development of our economy and our society. But for us to help provide solutions, we must work cooperatively with all segments of society, especially business.

Let me turn to the place of business schools within the university, itself. It's time we recognized that business schools are fully part of the university. Thus, as members of the larger institution, in turn, should recognize that we have tools that can help it meet its goals. Ideally, our

relationship should be a truly cooperative effort, with the business school contributing its skills and expertise and resources the university survive and prosper.

In academia, as well as in business, there's a belief that all experts live at least one hundred miles away and charge at least one hundred dollars ar hour. (Since my former firm was in the management consulting business, among other products, I suppose this was a good thing!) Yet, through the business school, the university can draw on valuable resources for helping it deal with such matters as building financial stability, cutting costs, combating declining enrollments, and working to overcome the effects of inflation and the cutbacks in federal and state funding. By contributing its expertise in areas such as budgeting, fund raising and finances, the business school can go a long way toward building a stronger bridge between itself and the university.

I'd like to stress an important point, often overlooked by those of us who devote our time to professional education. In the united states, no great school of management can stand alone. The best are necessarily affiliated with outstanding liberal arts institutions. In our case, 50 percent of the undergraduate courses taken by a business major are taken in areas outside of the Wharton School. The result is a rich cross fertilization, which we can further promote through more joint programs. We are thus under an obligation to devote great efforts to making that college successful just as we devote the required efforts to build our own school.

Well, enough of my observations and my thoughts about surprises. As I said at the start of my remarks, I am sure that in a year or so, when I've assimilated more completely to my new position, I will have a better understanding of this world and my ideas about it. In the meantime, I'm going to continue asking questions. I can promise, as well, that I won't accept the statement that just because something has always been done one way, that's the way it should be done. That's not the way to look for the best, in either business or education.

Yes, I'm having a wonderful time. If I had known that working in an academic environment could be so much fun, you can be sure that I would have been among your ranks at an earlier date.

While I have surprises and some concerns, my general impression is that the news from academia is very good. The search for excellence is not a subject copyrighted by american business exclusively. It's a search i see going on around me every day. And I'm proud to be a part of it.

Thank You!